

*Walgreens*  
ANNUAL REPORT  
1968



## Directors

A. A. BORG	C. W. MULANEY
SANFORD J. BOWYER	S. S. RAAB
C. R. CAMPBELL	R. L. SCHMITT
C. E. LA FRAMENTA	C. R. WALGREEN III

C. R. WALGREEN, JR.

## Officers

C. R. WALGREEN, JR.  
CHAIRMAN OF THE BOARD

A. A. BORG PRESIDENT	W. L. ALSTRIN CONTROLLER
C. R. CAMPBELL VICE PRESIDENT, TREASURER	H. W. BECKER GENERAL AUDITOR
M. R. KEPHART VICE PRESIDENT	J. A. DAVLIN ASSISTANT TREASURER
C. E. LA FRAMENTA VICE PRESIDENT	C. D. HUNTER ASSISTANT CONTROLLER
J. MITCHELL VICE PRESIDENT	W. K. MISKE ASSISTANT SECRETARY
S. S. RAAB VICE PRESIDENT	E. J. ROUBIK ASSISTANT SECRETARY
R. L. SCHMITT VICE PRESIDENT	N. P. STARSHAK ASSISTANT SECRETARY
C. R. WALGREEN III VICE PRESIDENT	A. W. TRAUTMAN ASSISTANT CONTROLLER, ASSISTANT SECRETARY
T. J. BARTON SECRETARY	

*Walgreen Co.*

GENERAL OFFICES

4300 Peterson Avenue, Chicago, Illinois 60646

### Transfer Agents:

THE FIRST NATIONAL BANK OF CHICAGO  
MORGAN GUARANTY TRUST COMPANY, NEW YORK

### Registrars:

HARRIS TRUST AND SAVINGS BANK, CHICAGO  
FIRST NATIONAL CITY BANK, NEW YORK

## HIGHLIGHTS OF 1968:

	<u>1968</u>	<u>1967</u>	<u>%</u>
SALES.....	\$622,845,463	\$559,424,769	+11.3
EARNINGS before income taxes....	20,558,086	20,789,370	-1.1
NET EARNINGS...	11,347,086	12,389,370	-8.4

### Per Share of Common Stock:

NET EARNINGS.....	\$ 1.79	\$ 1.95
DIVIDENDS PAID.....	.90	.70
SHAREOWNERS' EQUITY..	13.73	12.84

Your December 12, 1968, dividend will mark our 144th consecutive quarterly dividend payment.

Walgreen Co. commenced dividend payments in March of 1933—at the depth of the depression—and has now paid dividends every quarter of every subsequent year.

## TO OUR SHAREOWNERS:

December 9, 1968

During our 1968 fiscal year, sales again reached a new high of \$622,845,463, an increase of 11.3% above the previous year. Earnings were \$1.79 a share, compared with \$1.95, a decrease of 8.4%. This disappointing result was due to a narrowing of profit margins during the year, plus the impact of higher taxes that amounted to 13¢ a share. We are looking forward to good first-quarter sales, including heavy Christmas volume, and to another year of expanding sales.

At the November meeting of your Board of Directors, dividends were raised for the sixth consecutive year. Beginning with the current December payment, the quarterly rate will be increased from 22½¢ to 25¢ per share.

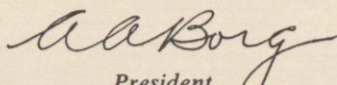
The composition of the retail operations of our company is becoming steadily more diversified. At the close of the fiscal year we were operating 549 units: 521 drug stores, of which 13 were super centers and 3 prescription shops; 16 Globe self-service department stores and 6 Danburg junior department stores; and 6 separate restaurants. Our major food operations, of course, are comprised of 307 restaurant units within or connected to our stores. Of the 4 Corky's opened this year, 3 are store-connected.

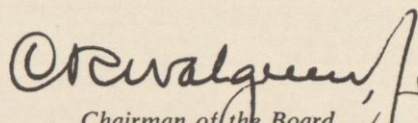
Expansion during 1968 is described on later pages of this report. Present plans call for an even heavier expansion in this current fiscal year of 1969.

Sanford J. Bowyer, in accordance with our retirement policy for members serving on your Board of Directors, is not offering himself for re-election. During the many years that "Sam" Bowyer was associated with our company (31 years as a director), he contributed much to our progress and growth.

Recently your Board of Directors amended the by-laws, enlarging the Board membership from nine to eleven. The three new director-nominees are James Mitchell, our vice president of Marketing and former general manager of our affiliate, Sanborns of Mexico; Arthur C. Nielsen, Jr., president of A. C. Nielsen Co.; and George P. Shultz, Dean, Graduate School of Business, University of Chicago. We believe that they will each make a valuable contribution to our board.

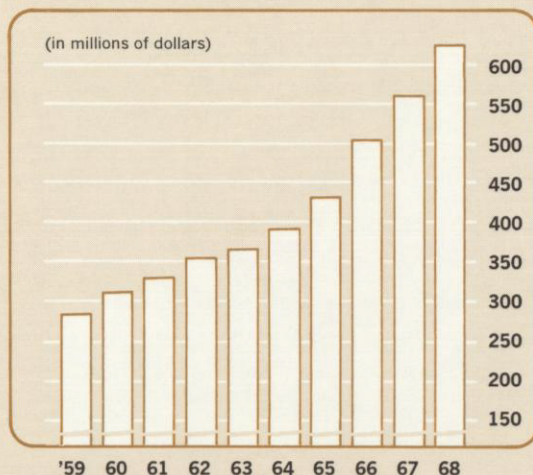
We wish to express our appreciation to the more than 22,000 fine men and women of our company. Their individual abilities and enterprise add up to our greatest force for progress.

  
President

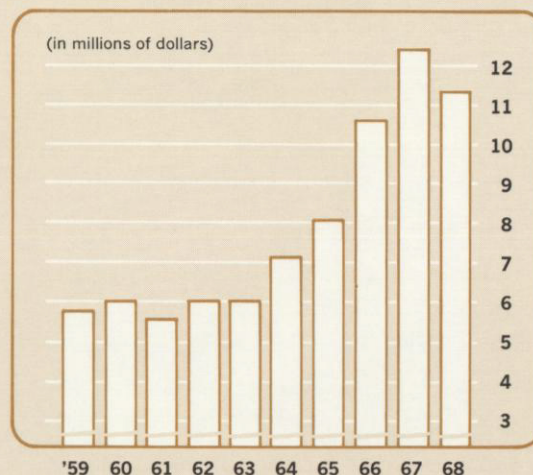
  
Chairman of the Board

## 10 YEAR PERFORMANCE RECORD

### NET SALES and other store income



### NET EARNINGS



YEAR ended Sept. 30	NET SALES and other store income	EARNINGS BEFORE TAXES	STATE & FEDERAL INCOME TAXES	NET EARNINGS	CASH DIVIDENDS PAID	PER SHARE		
						NET EARNINGS(2)	DIVIDENDS PAID(3)	SHARE-OWNER'S EQUITY(4)
IN THOUSANDS OF DOLLARS						IN DOLLARS		
1968	\$622,845	\$20,558	\$9,211	\$11,347	\$5,718	\$1.79	\$ .90	\$13.73
1967	559,425	20,789	8,400	12,389	4,616	1.95	.70	12.84
1966	501,616	18,331	7,738	10,593	4,284	1.67	.65	11.62
1965	432,511	13,715	5,700	8,015	3,707	1.30	.60	10.56
1964	391,326	12,277	5,150	7,127	3,083	1.16	.50	9.86
1963	366,748	11,133	5,105	6,028	2,451	.98	.40	9.21
1962	353,144	11,478	5,500	5,978	2,573 <sup>(1)</sup>	.98	.40 <sup>(1)</sup>	8.66
1961	331,666	10,704	5,110	5,594	2,519 <sup>(1)</sup>	.95	.40 <sup>(1)</sup>	8.27
1960	312,365	11,621	5,610	6,011	2,416 <sup>(1)</sup>	1.03	.40 <sup>(1)</sup>	7.76
1959	285,079	11,102	5,330	5,772	2,284 <sup>(1)</sup>	1.00	.40 <sup>(1)</sup>	7.14

(1) Plus payment of 3% stock dividend.

(2) Based on weighted average number of common shares outstanding during the year, adjusted for effect of two-for-one stock splits in 1967 and 1963 and 3% stock dividends paid in 1962, 1961, 1960 and 1959.

(3) Adjusted for two-for-one stock splits in 1967 and 1963.

(4) Based on common shares outstanding at year-end, adjusted for effect of stock splits and stock dividends.

## CONSOLIDATED STATEMENTS —For the Years Ended September 30, 1968 and 1967

### EARNINGS

	<u>1968</u>	<u>1967</u>
<b>NET SALES AND OTHER STORE INCOME</b> .....	<b>\$622,845,463</b>	<b>\$559,424,769</b>
<b>COSTS AND DEDUCTIONS:</b>		
Cost of sales.....	453,178,024	403,956,793
Selling, occupancy and administration.....	145,458,989	131,024,278
Contribution to Employees' Profit-Sharing Retirement Trust.....	2,466,970	2,393,420
Interest expense, net.....	1,183,394	1,260,908
Federal and state income taxes (including deferred taxes of \$910,000 in 1968 and \$660,000 in 1967).....	9,211,000	8,400,000
	<u>611,498,377</u>	<u>547,035,399</u>
<b>NET EARNINGS</b> .....	<b>\$ 11,347,086</b>	<b>\$ 12,389,370</b>
<b>NET EARNINGS PER COMMON SHARE</b> .....	<b>\$1.79</b>	<b>\$1.95</b>

### RETAINED EARNINGS

<b>BALANCE</b> , beginning of year.....	<b>\$ 57,933,564</b>	<b>\$ 50,159,944</b>
Net earnings.....	11,347,086	12,389,370
Cash dividends (\$.90 per share in 1968 and \$.70 in 1967).....	(5,717,596)	(4,615,750)
<b>BALANCE</b> , end of year.....	<b>\$ 63,563,054</b>	<b>\$ 57,933,564</b>

### SOURCE AND APPLICATION OF FUNDS

#### SOURCE OF FUNDS:

Net earnings.....	<b>\$ 11,347,086</b>	<b>\$ 12,389,370</b>
Depreciation and amortization (Note 3).....	4,704,428	4,431,007
Increase in deferred Federal income taxes.....	910,000	660,000
Increase (decrease) in long-term debt, net.....	(1,147,831)	1,777,380
Proceeds from stock options exercised.....	—	123,916
	<u><b>\$ 15,813,683</b></u>	<u><b>\$ 19,381,673</b></u>

#### APPLICATION OF FUNDS:

Net additions to property and equipment.....	<b>\$ 8,404,329</b>	<b>\$ 6,536,657</b>
Cash dividends paid.....	5,717,596	4,615,750
Additional investment in affiliated and other companies.....	258,546	53,115
Increase in working capital.....	1,433,212	8,176,151
	<u><b>\$ 15,813,683</b></u>	<u><b>\$ 19,381,673</b></u>

The accompanying notes to consolidated financial statements are an integral part of the above statements.

## CONSOLIDATED BALANCE SHEET

<b>ASSETS</b>	September 30 <u>1968</u>	September 30 <u>1967</u>
<b>CURRENT ASSETS:</b>		
Cash.....	\$ 9,917,298	\$ 7,850,817
Marketable securities, at cost, which approximates market.....	—	997,698
Accounts receivable, less reserves of \$563,000 in 1968 and \$512,000 in 1967 for doubtful accounts.....	9,422,301	7,489,784
Inventories, at the lower of cost or market, less reserves.....	98,608,337	89,753,000
Prepaid rent, insurance, taxes, etc.....	1,864,556	1,705,034
<b>TOTAL CURRENT ASSETS</b> .....	<b>119,812,492</b>	<b>107,796,333</b>
 <b>INVESTMENTS IN AFFILIATED AND OTHER COMPANIES,</b> at cost (equity in underlying book values or market value \$9,618,000 in 1968 and \$8,931,000 in 1967).....	<b>2,913,137</b>	2,654,591
 <b>PROPERTY AND EQUIPMENT, at cost:</b>		
Land.....	1,949,782	1,949,782
Buildings including improvements to leased properties.....	12,049,336	11,185,362
Equipment.....	59,887,832	54,192,986
	<b>73,886,950</b>	67,328,130
Less—Reserves for depreciation and amortization.....	28,400,749	25,541,830
<b>NET PROPERTY AND EQUIPMENT</b> .....	<b>45,486,201</b>	41,786,300
 <b>GOODWILL, at nominal value</b> .....	<b>1</b>	1
	<b>\$168,211,831</b>	<b>\$152,237,225</b>

The accompanying notes to consolidated financial statements are an integral part of these financial statements.





## LIABILITIES

	September 30 1968	September 30 1967
<b>CURRENT LIABILITIES:</b>		
Trade accounts payable.....	<b>\$ 30,410,078</b>	\$ 23,830,416
Accrued expenses and other liabilities.....	<b>17,026,434</b>	14,013,591
Federal and state income taxes.....	<b>3,431,148</b>	4,953,658
Current maturities of long-term debt.....	<b>1,148,365</b>	1,135,413
Notes payable.....	<b>2,500,000</b>	—
<b>TOTAL CURRENT LIABILITIES</b> .....	<b>54,516,025</b>	43,933,078
<b>LONG-TERM DEBT</b> , less current maturities shown above (Note 1):		
Notes payable to banks.....	<b>14,000,000</b>	14,875,000
Mortgages payable.....	<b>8,555,097</b>	8,827,928
<b>TOTAL LONG-TERM DEBT</b> .....	<b>22,555,097</b>	23,702,928
<b>DEFERRED FEDERAL INCOME TAXES</b> (arising from accelerated depreciation).....	<b>3,940,000</b>	3,030,000
<b>SHAREOWNERS' EQUITY:</b>		
Common stock, \$2.50 par value, authorized 10,000,000 shares; issued and outstanding 6,352,884 in both years, at stated value (Note 4).....	<b>23,637,655</b>	23,637,655
Retained earnings (Note 1).....	<b>63,563,054</b>	57,933,564
<b>TOTAL SHAREOWNERS' EQUITY</b> .....	<b>87,200,709</b>	81,571,219
	<b>\$168,211,831</b>	\$152,237,225

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**1. LONG-TERM DEBT:** The 4¾% notes payable to banks are due in annual principal installments of \$875,000 through 1974 and \$9,625,000 in 1975. Under the terms of the loan agreement, (a) \$21,467,787 of consolidated retained earnings at September 30, 1968, is not available for payment of cash dividends, or for repurchase of the Company's stock, and (b) consolidated net current assets must be at least \$25,000,000. Consolidated net current assets, as defined, are \$65,680,134 at September 30, 1968.

At September 30, 1968, the Company had mortgages payable on certain store and warehouse properties at interest rates ranging from 4½% to 5¾%. These mortgages provide for monthly payments of principal and interest and become fully paid during the years 1982 to 1993. The annual payments for each of the next five years amount to \$712,076.

**2. LEASE OBLIGATIONS:** At September 30, 1968, the Company and its subsidiaries had 495 leases expiring more than three years after that date (some of which contain percentage rental clauses) with minimum annual rentals of approximately \$12,927,000.

**3. DEPRECIATION:** Depreciation has been provided by the companies on the straight-line method at rates considered adequate to amortize cost of property and equipment over their estimated useful lives.

**4. CAPITAL STOCK:** There are authorized 1,000,000 shares of a \$1 per share par value preferred stock, issuable in series. The rights of this preferred stock as to dividends, redemption and liquidation will be determined when, as and if issued.

### AUDITORS' REPORT

ARTHUR ANDERSEN & CO.

CHICAGO, ILLINOIS

To the Board of Directors and  
Shareowners of Walgreen Co.:

We have examined the consolidated balance sheet of WALGREEN CO. (an Illinois corporation) and SUBSIDIARIES as of September 30, 1968, and the related consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings, retained earnings and source and application of funds present fairly the financial position of Walgreen Co. and Subsidiaries as of September 30, 1968, and the results of their operations and the sources and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chicago, Illinois,  
November 8, 1968.

*Arthur Andersen & Co.*

# New Products

## KEY TO OUR MANUFACTURING LABORATORY PROGRESS

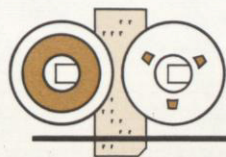
Manufacture of exclusive product lines in our own Laboratory assures our customers the combination of finest *quality* and extra *economy* that creates product loyalty and repeat sales.

Constant introduction of new items generates immediate impetus and adds to future potential.

Greater production volume and wider national penetration is achieved through distribution to some 1900 independently-owned Walgreen Agency drug stores, as well as all of our own Walgreen and Globe stores.

There are over 300 Walgreen Laboratory products . . . for health, for beauty, for the home. Choose them, recommend them with confidence:

**"When Walgreens name  
is on it, quality is in it"**

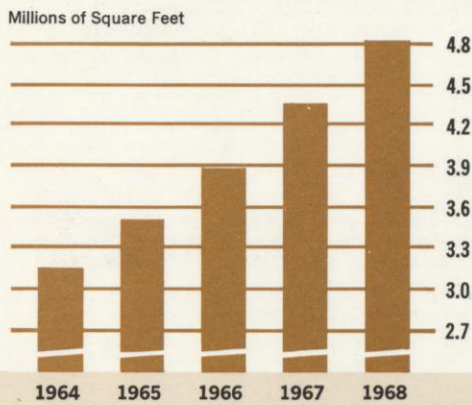


**Programmed for Progress ...** WALGREENS—  
ALWAYS GROWING, IMPROVING, CHANGING, CHALLENGING THE FUTURE

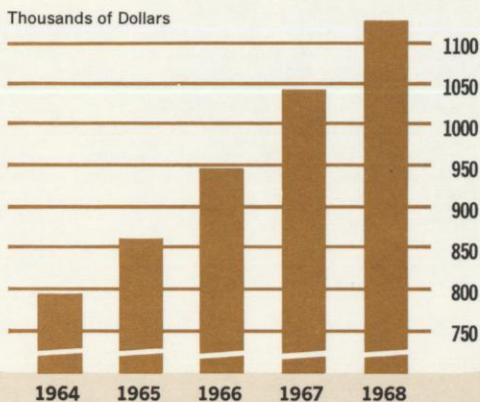
5 Years of Progress in  
STORE EXPANSION



5 Years of Progress in  
NET STORE SELLING SPACE



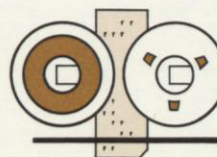
5 Years of Progress in  
AVERAGE VOLUME PER STORE



# NEW STORES OF LIGHT UP THE MAP FROM CALIFORNIA



Walgreens, early recognizing increased store *size* and *volume* as essential to profitable retailing, paced this trend by increasing our average store sales-area 62% within five years. Results are graphically shown in *Net Selling Space* and *Average Volume* charts at left.



**Programmed for**  
WALGREENS—ALWAYS GROWING

# 1968

## TO PUERTO RICO!



The Walgreen reputation for generating heavy customer traffic gives us a wide choice of store locations. While prime downtown sites are attractive, new leases are predominantly for outlying shopping centers providing customers easy parking and close-to-home convenience.

### Progress...

IMPROVING, CHANGING, CHALLENGING THE FUTURE

#### In the West—

**BURLINGAME, Cal.**, 1420 Howard Ave.  
**ENGLEWOOD (Denver), Colo.**, New Englewood Shopping Center (**Robin Hood Restaurant**)  
**LOGAN, Utah**, 125 E. 4th North  
**MURRAY, Utah**, 4425 S. State  
**PALO ALTO, Cal.**, 300 University  
**SALINAS, Cal.**, Salinas Shopping Center  
**SALT LAKE CITY, Utah**, 23 E. Broadway  
**SALT LAKE CITY, Utah**, 220 S. 7th E. (**Super Center**)  
**SANTA CLARA, Cal.**, Santa Clara Civic Plaza

#### In the Southwest—

**EL PASO, Tex.**, Grant City Shopping Center  
**EL PASO, Tex.**, Kern Plaza Shopping Center  
**HOUSTON, Tex.**, 5784 Bellfort Blvd.  
**HOUSTON, Tex.**, 975 Gessner Road (**GLOBE**)  
**HOUSTON, Tex.**, 8708 Jensen  
**HOUSTON, Tex.**, 3200 S. Main  
**HOUSTON, Tex.**, Westhill Village Shopping Center  
**MESA (Phoenix), Ariz.**, Tri-City Shopping Mall  
**PHOENIX, Ariz.**, 1120 S. 16th (**Super Center**)  
**SAN ANTONIO, Tex.**, 238 Military (**GLOBE**)  
**TEXAS CITY, Tex.**, Mainland Mall Shopping Center  
**TUCSON, Ariz.**, Ajo Shopping Center

#### In the South—

**GREENVILLE, S.C.**, McAlister Square Shopping Center  
**MEMPHIS, Tenn.**, 4278 Summer Ave.  
**MIAMI, Fla.**, Miller Road Shopping Center  
**MOBILE, Ala.**, 1550 Government St.  
**NEW ORLEANS, La.**, Donna Villa (with **Corky's**)  
**ORMOND BEACH (Daytona), Fla.**, Granada S.C.  
**WEST PALM BEACH, Fla.**, Palm Beach Mall S.C.

#### In the Midwest—

**BROOKFIELD (Milwaukee), Wis.**, Brookfield Square  
**CHICAGO, Ill.**, Pilsen Park Plaza  
**DES MOINES, Iowa**, 308 6th Ave. (**Corky's**)  
**DES MOINES, Iowa**, 601 Walnut  
**ELMHURST, Ill.**, North & 83 Plaza (with **Corky's**)  
**FLORISSANT (St. Louis), Mo.**, Cross Keys S.C.  
**GREENFIELD (Milwaukee), Wis.**, Spring Mall Center  
**MICHIGAN CITY, Ind.**, Marquette Mall S.C.  
**MILWAUKEE, Wis.**, 424 W. Wisconsin (**interim location**)  
**OTTAWA, Ill.**, 129 W. Main  
**PARK RIDGE, Ill.**, De-West Shopping Center  
**PEORIA, Ill.**, Knoxville Plaza Shopping Center  
**SOUTH MILWAUKEE, Wis.**, Grant Park Shopping Center

#### —And, Puerto Rico:

**GUAYNABO (San Juan),**  
Santa Maria Shopping Center



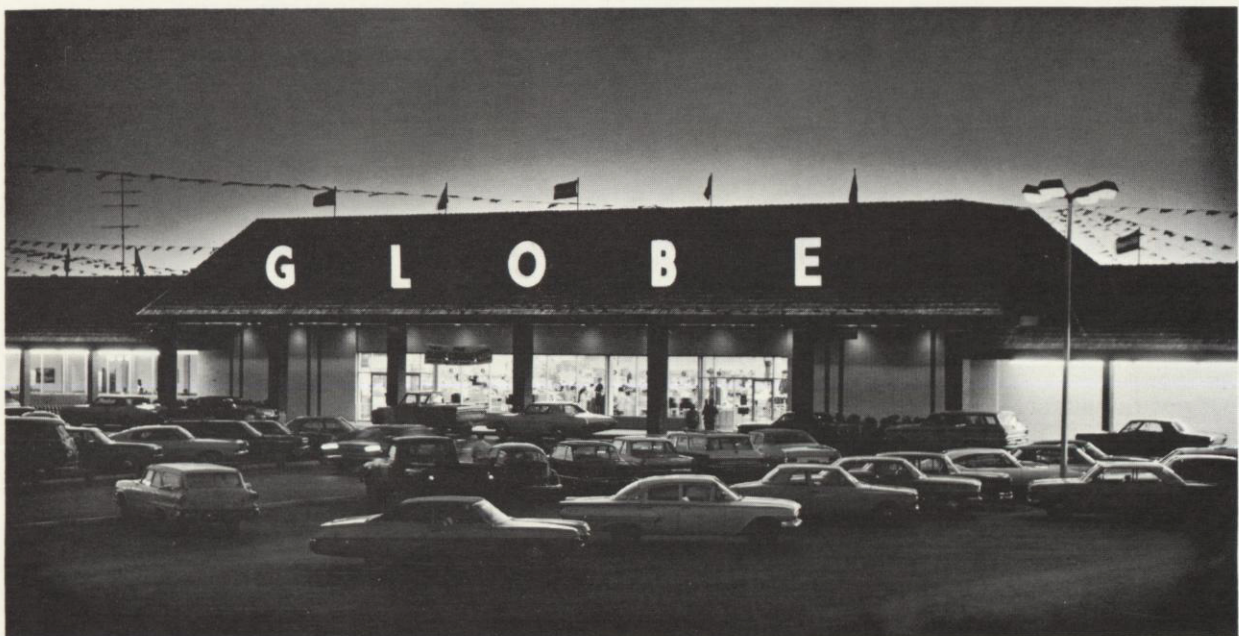
(Note: The fourth new Corky's was added to an existing store in Houston, Texas.)

OUR EXPANSION PROGRAM introduces

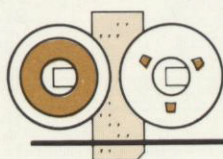
## Two of Our Many Brand New Stores!



ACCELERATED EXPANSION PROGRAM opens ever-larger *new-generation* Walgreen Drug Stores. This Elmhurst, Ill. unit greets customers with 13,200 sq. ft. of well-departmented merchandising area, *plus* an adjacent *Corky's*.



OUR 15th AND 16th GLOBES OPEN IN 1968. These are full-line self-service *department stores*, measuring 80,000 and 102,000 sq. ft., with 1000-car parking facilities . . . literally, *one-stop family shopping centers*.



*Programmed for Progress*

OUR IMPROVEMENT PROGRAM introduces

## One of Our Many Like-New Stores!



CONTINUOUS, VIGOROUS IMPROVEMENT PROGRAM is here illustrated by our all-new, better-than-ever Evergreen Park, Ill. store. *Doubled in size to Super Center proportions, it is one of many 1968 store remodelings.*



STRONGER DEPARTMENTALIZATION and broadened merchandising are prime goals of our store-improvement program, as shown by the impressively wide expanse of the new "Beauty Center" in this same Evergreen Park store.

... WALGREENS—ALWAYS GROWING, IMPROVING, CHANGING, CHALLENGING THE FUTURE

## New Dimensions in Food Service

### WALGREEN GRILL ROOMS

...ever better!

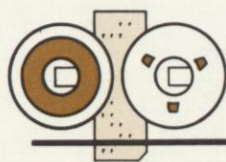
Growing always in size and beauty, our in-store *Grill Rooms* are producing rewardingly higher volumes. And the extra dividend is that the many diners we host usually tend to shop our stores as well.

Our recipe for restaurant success is in the Walgreen tradition: Prompt service, moderate prices, and a single standard of food quality—the *finest*.



**CORKY'S . . .** *the start of something new:*

Our first four *Corky's* are proving especially popular with young people and young families. Convenient drive-ins, providing both dine-in and carry-out service, they feature a *Corker! Hamburger*, *Dixie-Fried Chicken*, tasty *Roast Beef*, shakes, soft drinks, plus the added attraction of popular prices and instant service. Our 1969 plans call for 14 more *Corky's*.



**Programmed for Progress...** WALGREENS—

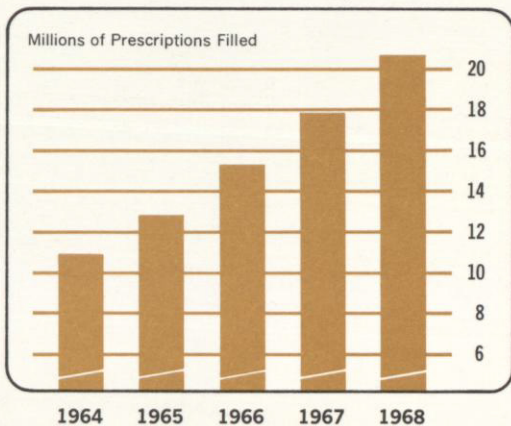


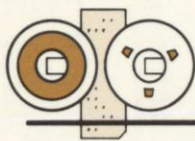
**WALGREEN DRUG STORES  
HONORED AS  
FIRST IN NATION  
TO FILL 200 MILLION  
PRESCRIPTIONS**



This proud award dramatically underscores the surging growth of our pharmacy volume. From 1901 thru 1960, Walgreen Pharmacists filled 100 million prescriptions. And now we have vaulted from 100 to 200 million in just the past 8 years. We are today, more than ever, *Number One Pharmacists to the Nation*

**5 Latest Years of Pharmacy Growth**





## Computerization

Early entry into data-processing (a small part of our Computer center is shown) has developed for us new efficiencies in many areas of our operation—from purchasing and distribution to inventory-control and accounting. We are at all times '*Programmed for Progress*'.



*And . . . introducing* **ROBIN HOOD—**

A large, separate restaurant in striking decor that harks back to a romantic medieval era, the *Robin Hood* was opened in Denver's New Englewood shopping center in March, as a pilot operation to further explore our food-service potential.



